

## Contents

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<b>Understanding the Concept of Depreciation as it Applies to Commercial and Industrial Property .....</b>	<b>4</b>
Determining the Actual Age of a Structure.....	5
<b>Understanding the Commercial and Industrial Structure Condition Classifications.....</b>	<b>6</b>
<b>Determining the Normal Depreciation Percentage.....</b>	<b>7</b>
<b>Determining Abnormal Functional Obsolescence .....</b>	<b>8</b>
Most Common Methods for Calculating Functional Obsolescence.....	9
Calculating Total Depreciation for Income Producing Properties.....	11
<b>Determining Abnormal External Obsolescence .....</b>	<b>13</b>
<b>Calculating Abnormal External Obsolescence .....</b>	<b>14</b>
Paired Sales Analysis Method .....	14
Capitalization of Income Method .....	15
<b>Obsolescence for Special-Purpose Properties.....</b>	<b>17</b>
Underlying Principles.....	17
Estimating Reproduction Cost New.....	18
Adjustments to Reproduction Cost.....	19
Estimating Physical Depreciation .....	19
Estimating Functional Obsolescence.....	19
Estimating External (Economic) Obsolescence.....	20
<b>Determining the Depreciation Percentage for Yard Structures.....</b>	<b>22</b>
<b>Using the Commercial Swimming Pool Depreciation Table .....</b>	<b>33</b>

Using the Golf Course Physical  
Deterioration Table .....35

Using the Riverboat Depreciation Table .....37

Calculating Total Depreciation Percentage for  
Special Use Commercial Properties .....37

GRAIN ELEVATOR DEPRECIATION  
CONSIDERATIONS.....40

**Tables**

Table F-1. Structure Condition Classifications .....23

Table F-2. Actual Age to Effective Age  
Conversion Table .....24

Table F-3a. Typical Structure Lives - GCM.....25

Table F-3b. Typical Structure Lives - GCI.....27

Table F-3c. Typical Structure Lives - GCR.....29

Table F-3d. Typical Structure Lives - GCK.....29

Table F-3e. Typical Structure Lives – Yard  
Structures.....30

Table F-4. Depreciation - Commercial and  
Industrial Structures .....32

Table F-5. Commercial Swimming Pool  
Depreciation .....34

Table F-6. Golf Course Depreciation .....35

Table F-7. Riverboat Depreciation .....37

Table F-8. Special Use Commercial Property  
Depreciation .....39

This appendix describes the concepts of accrued depreciation as applied in assessing:

- Commercial structures
- Industrial structures
- Commercial and Industrial yard structures

This appendix discusses how depreciation is used in the valuation process. It describes how the condition, age, desirability, and utility of a structure affect the determination of accrued depreciation. It provides step-by-step instructions for determining the normal depreciation percentage applicable to individual structures.

This appendix also provides instructions for calculating abnormal obsolescence.

## Understanding the Concept of Depreciation as it Applies to Commercial and Industrial Property

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Accrued depreciation is a loss in value to the cost new of the improvements from any and all causes. In estimating the replacement cost new of the improvements, you have determined the upper limit of value that the improvements will have on the valuation date. The accrued depreciation, therefore, is merely the difference between this upper limit of value (replacement cost new) and the true tax value of the improvement.

There are three major categories, or causes, of depreciation:

- **Physical Deterioration** is a loss in value caused by the building materials wearing out over time. It may be caused by wear and tear, use or abuse, action of the elements, and/or insect infestation.
- **Functional Obsolescence** is a loss in value caused by inutility within the improvement. It may be caused by defects in design, style, size, poor room layout, a deficiency, the need for modernization, a superadequacy, and/or by changes in the tastes of potential buyers.
- **External Obsolescence** is caused by an influence outside the property's boundaries that has a negative influence on its value. Noise, air, water, or light pollution; heavy traffic; inharmonious land uses; and/or crime are examples of external obsolescence.

Note: When applying any form of obsolescence the assessor should reevaluate the obsolescence on an annual basis.

In using the cost tables in this manual, you have produced a generalized cost estimation that is referred to as the *replacement cost new* of the structure. Replacement cost new is defined as the cost of constructing a building having the same utility as the subject structure but using modern construction materials, workmanship, and design. In so doing, you have effectively "cured" most forms of functional obsolescence that exist in the structure and, therefore, do not need to account for them in your depreciation estimate.

The depreciation on commercial and industrial structures is estimated as a lump sum percentage that accounts for the loss in value from all three of the above categories. In this manual, this depreciation percentage will be referred to as **normal depreciation**. Any additional loss in value from atypical forms of obsolescence will be referred to as **abnormal obsolescence** and will be estimated separately from the normal depreciation.

**Normal depreciation** is estimated through the assignment of **typical life expectancies** and individual **structure condition classifications**.

The above examples of the various forms of obsolescence are given to provide typical types found in commercial and industrial properties. However, the obsolescence examples may or may not apply in specific markets depending upon buyer preferences. In other words, what is obsolete in one market may not

be considered obsolete in another market where there are different influences affecting value.

### Determining the Actual Age of a Structure

The actual age of a structure should be determined from the records of the owner. If this is not available, public records such as building permits or older property record cards may be used.

Structures which have had additions built subsequent to the construction of the principal or original structure must have a "weighted" age calculated to use in place of the actual age when using the commercial and industrial depreciation tables. The method of calculating weighted age is one of weighting the actual age of the original structure and each of its additions by the square footage contained in each part of the structure.

**Note:** Depreciation is based on the number of years that have lapsed from the date of construction and the effective date of valuation. Therefore, in this manual the age of a structure is the difference between its date of construction and January 1, 1999.

**Example:** An industrial plant was originally built forty (40) years ago in 1959 and has had two additions; one twenty (20) years ago in 1979 and the second five (5) years ago in 1994. The original structure contained twenty thousand (20,000) square feet, addition one contained five thousand (5,000) square feet and addition two contained ten thousand (10,000) square feet. The calculation of the weighted age would be as follows:

Part of Structure	Size	Total S.F.	%	Year	Contribution
Original plant	20,000	÷ 35,000	= 57.14	X 1959	= 1,119.43
1 <sup>st</sup> addition	5,000	÷ 35,000	= 14.29	X 1979	= 282.71
2 <sup>nd</sup> addition	10,000	÷ 35,000	= 28.57	X 1994	= 569.71
Totals	35,000		100.00		1,971.85

1,971.85 rounds to the year 1972. Therefore, the structure has a weighted age of twenty-seven (27) years and the assessor would enter 1972 on the property record card in the age column under summary of improvements.

Understanding the Commercial and Industrial Structure  
Condition Classifications

The assessing official first determines the **structure condition classification** for the structure taking into account its physical condition, any inutilities, and location. The majority of structures will have an average structure condition classification. An average structure condition classification for a structure means it is in the average condition and has the average utility characteristics of the majority of the structures with the same age. Therefore, the structure given an average structure condition classification has experienced representative or typical maintenance and offers the same utility as the majority of structures within its age group.

Structures demonstrating higher maintenance, suffering from less inutility, and having superior locations than the majority of structures in the age group should be given condition classifications of good or excellent. Examples of these types of structures would include a structure having energy efficient replacement windows or a commercial structure that has had the façade modernized.

Structures demonstrating lower maintenance and suffering from more inutility should be given structure condition classifications of fair, poor, and very poor. Examples of these types of structures would include a structure that has a severely deteriorated roof or an industrial structure that is located away from any major form of transportation.

**Table 1. Structure Condition Classifications**, at the end of this appendix, describes the classifications that are to be assigned.

### **Determining the Normal Depreciation Percentage**

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This section provides the instructions for using the commercial and industrial depreciation tables to calculate the normal depreciation percentage for a structure.

- Step 1 Determine the actual age (weighted age) of the structure using the procedure discussed in the section **Determining the Actual Age of a Structure** earlier in this appendix.
- Step 2 Assign a structure condition classification to the structure by comparing it to structures of similar age. Structure condition classifications are summarized in **Table F-1. Structure Condition Classifications** later in this appendix.
- Step 3 Determine the effective age of the structure by correlating the actual age (weighted age) with the structure condition classification in **Table F-2. Actual Age to Effective Age Conversion Table** located later in this appendix.
- Step 4 Determine the typical life expectancy in years of the structure by referring to **Table F-3. Typical Structure Lives** located later in this appendix.
- Step 5 Go to **Table F-4. Depreciation – Commercial/Industrial Structures** located later in this appendix and find the total life expectancy in year's column that you determined for the structure in Step 4 above.
- Step 6 In the effective age column of the table, locate the row corresponding to the structure's effective age as determined in Step 3 above.
- Step 7 Find the intersection of the selected row (effective age) and the selected column (typical life expectancy). This number is the percentage of normal depreciation from all causes suffered by the structure.

**Example:** A fifteen (15) year old supper club restaurant with a C grade, type 2 framing, has been assigned a structure condition classification of average based upon its physical condition and utility. Its effective age is determined to be fourteen (14) years by correlating its actual age with its structure condition rating in **Table F-2. Effective Age to Actual Age Conversion Table**. The typical life expectancy for a restaurant with a C grade, type 2 framing is thirty-five (35) years as shown in **Table F-3a. Typical Structure Lives**. Referring to **Table F-4. Depreciation – Commercial/Industrial Structures**, we correlate the row for an effective age of fourteen (14) years with the typical life expectancy column for thirty-five (35) years and find a normal depreciation of twenty-nine percent (29.0%).

## Determining Abnormal Functional Obsolescence

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The normal depreciation that has been estimated as outlined in the first part of this appendix accounts for typical physical deterioration and typical obsolescence. Any abnormal or excessive functional and external obsolescence that affect the structure must be considered separately since they have not been accounted for in the normal depreciation table.

Abnormal obsolescence is calculated using different methodologies depending upon the type of inutility it represents. There are numerous methodologies and as a general rule, common appraisal concepts and methods may be used to determine obsolescence under true tax value. See *Canal Square v. State Board of Tax Commissioners*. A discussion of some of the most common methods to calculate functional obsolescence is included below. This is not intended to be an exhaustive list, however, any method used by an assessor or by a taxpayer on appeal must establish certain factors of reliability to be used as a basis for awarding obsolescence.

The United States Supreme Court has provided rules for determining the general reliability of scientific and technical evidence used in judicial proceedings in *Daubert v. Merrell Dow Pharmaceuticals*, 113 S. Ct. 2786 (1993). The Board believes that given the acceptance of the *Daubert* standard by Indiana courts that it is appropriate to use these standards as a general indicator of reliability of evidence used to calculate functional obsolescence.

In *Daubert*, the Court held that to be relevant, “[p]roposed testimony must be supported by appropriate validation -- i.e., ‘good grounds,’ based on what is known.” 113 S. Ct. at 2795. In other words to be reliable evidence, a scientific or technical study must satisfy the following conditions:

- Is the evidence reliable?
  - Is the evidence relevant? For example, does the evidence “fit” the case? Relevance may be indicated by:
    - whether the theory can be and has been tested;
    - whether the theory has been subject to peer review and published;
    - rate of error and maintenance of standards;
    - general acceptance of the theory in the relevant scientific community.
- Kurncz v. Honda North America, Inc.*, 166 F.R.D. 386, 388 (D.C.Mich 1996)

In addition to the general requirements for relevancy discussed above, both the United States Supreme Court and Indiana Supreme Court have recognized that scientific evidence can be reliable for one purpose and not another, and that to be relevant to a particular inquiry, the proponent of the evidence must establish a valid scientific connection between the theory and the specific facts of the case. *Daubert*, 113 S.Ct. at 2796; *Steward*, 652 N.E.2d at 498.

In addition to the factors applied by the courts to establish reliability, the Board will consider a number of additional factors to determine the relevancy of evidence regarding obsolescence. The first factor is whether the alleged maladies of the



property actually lead to a loss of value. Evidence of such loss of value may be based on the assessor's observations of the property, statistical evidence establishing a correlation between the faults of the property and its value, or from anecdotal evidence if sufficiently reliable. In many cases there will be causes of obsolescence that cannot be easily seen by the assessor. In these cases, it is incumbent on the taxpayer to establish a link between the evidence and the loss in value. For statistical evidence this may be established by providing sufficient evidence of correlation of the evidence to value. For anecdotal evidence establishing reliability is more difficult. Uncorroborated assertions by the taxpayer in a tax appeal regarding the value of its property are inherently unreliable unless they can be confirmed either by other statements or by the opinions of impartial observers. For example, a statement by a taxpayer that its property is worthless is not reliable if the same taxpayer has produced sales literature extolling the virtues of the property and discussing its great value.

### Most Common Methods for Calculating Functional Obsolescence

Functional obsolescence is calculated using different methodologies depending upon the type of inutility it represents. Listed below are the most common forms of functional obsolescence and the appropriate methodologies used to convert them into a dollar loss in value.

- A **deficiency requiring an addition** is something lacking in the improvement that potential owners of the property desire. An example of this would be an office building without central air conditioning located in a neighborhood where all comparable, competing office buildings have central air conditioning. The depreciation caused by this type of functional obsolescence is calculated by determining the cost of adding (retrofitting) the item less the cost to install the item in new construction. Using the example in this paragraph; a contractor estimates it would cost \$40,000 to add central air conditioning to the office building at the present time and the manual shows the cost new of this air conditioning system is \$30,000. The amount of functional obsolescence would be calculated as follows:

Cost to add (retrofit) air conditioning	\$40,000
Less cost new of air conditioning from manual	- 30,000
Functional Obsolescence	\$10,000

- The **need for modernization** means the improvement has the item desired by the potential owners but it is outdated or inefficient. An example of this would be a ventilating system in an industrial plant that does not effectively remove heat and odors from the manufacturing area. The depreciation caused by this type of functional obsolescence is calculated by taking the cost new of the item, less the physical depreciation already charged, less the salvage value of the existing item (if any), plus the cost to remove the existing item and the added cost to install the new, modern item. Using the example in this paragraph; the cost new of the current ventilating system was \$20,000, it was physically depreciated 50%, had a salvage value as scrap metal of \$500, and the cost to remove the existing system and install the new system was

\$30,000. The amount of functional obsolescence would be calculated as follows:

Cost new of existing system	\$20,000
Less physical depreciation already charged @ 50%	- 10,000
Less salvage value	- 500
Plus cost of removing old and installing new system	+ 30,000
Functional Obsolescence	<u>\$39,500</u>

- A superadequacy in a structure is an item that is bigger, better or larger than potential owners demand. For example, assume you have an apartment building that is heated by a central, gas-fired boiler that produces steam. The boiler has a capacity that is twice as big as necessary to heat the building; therefore, it is superadequate. The depreciation caused by this type of functional obsolescence is calculated by taking the cost new of the item, less the physical deterioration already charged, plus the cost of removal of the item and the installation cost of a new adequate item, less the salvage value (if any) of the superadequate item.

Using the example in this paragraph; the cost new of the existing boiler is \$8,000, it was physically depreciated 80% and had a salvage value of \$200 as scrap metal. The cost to remove the existing boiler and install a new, adequate boiler is \$12,000. The amount of functional obsolescence would be calculated as follows:

Cost new of existing boiler	\$8,000
Less physical depreciation already charged @ 80%	- 6,400
Less salvage value	- 200
Plus cost of removing old and installing new boiler	+ 12,000
Functional Obsolescence	<u>\$13,400</u>

- **Excess operating costs** are often incurred by a property that suffers functional obsolescence. This means the inutility within the structure causes the owner to have to pay more to operate the property than he/she would if the inutility did not exist. An example of this would be an industrial property that has had a warehouse addition made to the main plant. Because of the site size and/or zoning restrictions, the warehouse addition was constructed in a manner that makes the movement of materials between the main plant and the warehouse less than efficient, thereby causing inutility. In order to overcome this inutility, the owner of the plant has had to purchase a forklift and hire an operator that would not have been needed had the warehouse been an integral part of the main plant. The depreciation is calculated as follows:
  - a. Sum the annual cost of the operator's wages plus overheads (payroll taxes, insurance, and other benefits) and the annual operating expenses on the forklift (fuel, maintenance, and depreciation).
  - b. Determine the number of years of remaining economic life for the main plant. This is the number of years from the date of valuation until you expect the plant to have a zero value. It is calculated by subtracting the effective age of the plant from its total life expectancy; both estimated under the normal depreciation procedure.

- c. Discount the total annual excess operating costs over the remaining economic life of the main plant at an appropriate discount rate to get the amount of functional obsolescence. A discussion of "discounting" can be found in any appraisal text that discusses the income approach to value.

**Example:**

Forklift operator's annual wages	\$20,000
Operator's overheads (35% of wages)	7,000
Maintenance on forklift	1,000
Fuel for forklift	3,000
Depreciation on forklift	2,000
Total annual excess operating costs	\$33,000
Times Present Worth of 1 per Period factor for 20 years (remaining economic life of plant) at a 12% discount rate	x 7.46944
Functional obsolescence	\$246,492

Other recognized appraisal methods for determining obsolescence may also be used if based on reliable and relevant data, if the data was readily available to the assessor at the time the assessed value was set.

### Calculating Total Depreciation for Income Producing Properties

The market most often uses a capitalized income approach to value income producing properties. This approach converts an estimate of the income the property receives from rent into value through a mathematical process known as capitalization. It more accurately reflects the actions of buyers and sellers of such properties than does the cost approach to value used in the manual.

The simplest method of capitalization is done through the use of Gross Income Multipliers (GIM). The use of this capitalization method requires certain assumptions. The first is the property will remain rented at a constant rate with no unusual vacancies. The second is that the subject and the comparable properties used in the analysis are truly comparable in that they are subject to the same market influences. The third is that any differences between the subject and the comparables are reflected in the rents each receives.

Dividing a property's sale price by its annual income (rent) derives a gross income multiplier (GIM). The resultant GIM is a number that tells you how many times gross annual rent a purchaser paid for the property being analyzed. Completing this calculation for all sold comparable properties within an area will yield a range of GIM's from which can be chosen the typical GIM for the area.

The mechanics of the GIM method are:

- 1) Derive GIM's from comparable sales by dividing the sale price by the gross annual income/rent that each was receiving at the time of sale.
- 2) Calculate the total value of the subject property by multiplying its annual gross rent by the appropriate GIM.

Compare this total value from the capitalization process to the subject property's RCN plus land value. If the capitalized value is equal to or greater than the RCN plus land value, no depreciation exists on the subject property. If the RCN plus land value is greater than the capitalized value, the difference between the two values is the indicated total depreciation for the subject property.

Other more sophisticated versions of the capitalized income approach may be used to determine total depreciation if based on reliable and relevant data, if the data was readily available to the assessor at the time the assessed value was set.

### **Determining Abnormal External Obsolescence**

External obsolescence can either be temporary or permanent. Temporary external obsolescence is caused by factors in the market such as an oversupply of the type of space it provides. This is sometimes found in income producing (rental) properties such as apartments, hotels/motels, office buildings, and retail commercial space such as shopping centers and downtown mercantile buildings. Permanent external obsolescence is caused by the subject property's location to an encroaching land use. Examples of this would be location in proximity to an environmental hazard, inharmonious land uses surrounding the property, and the absence of zoning and land use controls.

The same discussion contained in the section ***Determining Abnormal Functional Obsolescence*** in this appendix with regard to the *Daubert* standard applies in the case of external obsolescence. The Board believes that given the acceptance of the *Daubert* standard by Indiana courts it is appropriate to use these standards as a general indicator of reliability of evidence used to calculate external obsolescence.

Market data must be used in estimating external obsolescence. Therefore, it becomes necessary to isolate the effect that external obsolescence has on land value separately from building value. Its effect on land value is demonstrated in the land value assigned to the subject property. Its effect on building value is the only concern discussed in this appendix because it is the depreciation of the structure that we are concerned with at this point in the true tax value determination. A properly determined land value ratio developed for the neighborhood in the land value process is used to determine the amount of external obsolescence to be allocated to the building.

**Example:** You have estimated \$20,000 as the total external obsolescence for a commercial property. The land value ratio established for commercial property in this neighborhood is 1:3 meaning that one (1) part of the total value is in the land and three (3) parts are in the improvements. To determine the amount of external obsolescence on the improvements, you must allocate out of the total obsolescence three (3) parts, which is equal to seventy-five percent (75%). Therefore, 3 parts or 75% of \$20,000 total obsolescence equals \$15,000 of external obsolescence on the commercial building.

## **Calculating Abnormal External Obsolescence**

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There are two methods of measuring external obsolescence, both requiring the use of market data. These two methods are known as paired sales analysis and capitalization of rent loss.

### **Paired Sales Analysis Method**

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In this method of estimating external obsolescence, the assessing official locates two properties that have sold which are comparable to the subject and each other. One of the comparable properties suffers from the same external obsolescence as the subject; the second does not suffer the external obsolescence. The comparable sale prices are adjusted for time to reflect the same date of sale as the reassessment date and the difference in the adjusted selling prices is the indicated total market external obsolescence suffered by the one comparable property. You must next convert this market external obsolescence into an indicated true tax value external obsolescence by dividing the market external obsolescence (the difference in the adjusted selling prices of the two comparables) by the selling price of the comparable suffering the external obsolescence. The result is the percent of total external obsolescence.

To determine the percentage external obsolescence to be applied to the remainder value of the subject improvements, the land value ratio is applied to the total external obsolescence percentage as explained earlier in this appendix.

**Example:** The subject commercial property is located next to a landfill. This reduces the number of customers it draws in comparison to similar properties located several blocks away from the landfill. You have located two sales of comparable properties. The first sale suffers the same location problem as the subject and sold two (2) years prior to the assessment date for \$80,000. The second sale does not suffer the same location problem as the subject and the first sale and sold one year prior to the assessment date for \$94,000. The land value ratio for these properties in this neighborhood is 1:3 and sale prices have increased 5% per year in this neighborhood.

The external obsolescence percentage to be applied to the subject improvements is calculated as follows:

Sale Price of comparable w/o obsolescence, adjusted to assessment date	\$94,000	+	5%	=	\$98,700
Sale Price of comparable with obsolescence adjusted to assessment date	\$80,000	+	10%	=	\$88,000
Difference in adjusted selling prices (Indicated total market external obsolescence)					\$10,700
Divided by sale price of comparable with external obsolescence				÷	\$88,000
Equals percentage market external obsolescence				=	12.2%
Allocated to building using the L:B ratio of 1:3	12.2% x 75%	=			9.2%
Rounded to					9.0%

Therefore, 9.0% is the amount of external obsolescence that the subject property's improvements should receive and is applied to the remainder value of those improvements.

### Capitalization of Income Method

This method of estimating external obsolescence uses the income approach to value techniques whereby the rent loss caused by the external obsolescence is capitalized into an estimate of the loss in total property value. The assessing official estimates how much net rent is being lost by the subject property due to the external influence (external obsolescence). This net rent loss is then capitalized by an overall capitalization rate using the capitalization formula to arrive at the dollar amount of total external obsolescence for the property.

To determine the dollar amount of external obsolescence to be applied to the remainder value of the subject improvements, the land value ratio is applied to the total external obsolescence as explained earlier in this appendix. This dollar amount of external obsolescence is then converted to a percentage by dividing it by the remainder value of the subject improvements.

**Example:** An office building containing 40,000 square feet of leaseable area suffers a vacancy rate of 20% due to an oversupply of office space in the market. The normal vacancy rate for this type of property in a more active market is 5%, therefore 15% (actual vacancy of 20% minus normal vacancy of 5%) of the space cannot be utilized in the current market. The net rent of the subject property is \$5.00 per square foot annually. The land value ratio for office buildings in the area is 1:5 and the capitalization rate is 12%. You have already calculated the remainder value at \$1,700,000.

The external obsolescence percentage to be applied to the subject improvements is calculated as follows:

Calculation of unused space	=	40,000 SF	x	15%	=	6,000 sq. ft.
6,000 sq. ft.	x	\$5.00/ sq. ft.	=			Annual rent loss or \$30,000
Capitalized (divided by) cap rate of 12%			÷		<u>12%</u>	
Equals Total External Obsolescence	=					\$250,000
Allocated to building		\$250,000 x 83.33%	=			\$208,333
using the L:B ratio of 1:5						
Converted to a percentage by dividing		\$208,333 ÷	=			12.26%
the building external obsolescence by		\$1,700,000				
the remainder value						
Rounded to						12.00%

Therefore, 12.0% is the amount of external obsolescence that the subject property's improvements should receive and is applied to the remainder value of those improvements.



## Obsolescence for Special-Purpose Properties

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This section provides recommendations for estimating industry-wide obsolescence of special-purpose properties. The State Board of Tax Commissioners reserves the right to perform the assessment of some or all special-purpose properties, or to authorize the local assessor to perform such analysis. A special-purpose property is defined as:

*A limited-market property with unique physical design, special construction materials, or a layout that restricts its utility to the use for which it was built.<sup>1</sup>*

Typically, this would include industrial properties designed for a particular industry or use, steel mills, or specialized types of manufacturing facilities.

The steps in this analysis include:

1. Estimating the reproduction cost new of the improvements
2. Breaking down the obsolescence into its component parts
3. Estimating the land value
4. Subtracting Step 2 from Step 1 to get the improvement value
5. Adding Step 4 to Step 3 to the total property value

## Underlying Principles

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The reliance on value-in-use as opposed to value-in-exchange is similar to the difference between the bid and ask price for an asset. The bid price is what a buyer is willing to pay to purchase an asset, the ask price is what the seller is willing to take in exchange for an asset. Typically, the bid price will initially be lower than the ask price, some negotiation will occur, and when the two are equal an exchange will take place.

We will first consider the motivations of the seller. A seller of a special-purpose industrial property would accept nothing less than a price equal to the utility being gained from the property. For properties currently in use, this amount would be termed the value-in-use (i.e. the ask price). A buyer of a special-purpose property would initially bid no more than necessary to motivate the seller. In many cases, a buyer would start with the liquidation value of the property (i.e. the bid price). Assuming that the buyer intends to use the property for its current use, the buyer will likely adjust the bid price until a transaction is completed. Since the seller has no motivation to sell at anything less than the value-in-use for a special-purpose property, the ask price becomes the benchmark for a likely transaction.

Contrast the value-in-use premise with value-in-exchange. In this scenario, the underlying assumption is that both parties are motivated to undertake the transaction. From the seller's perspective, the only time this would occur would be if one of two conditions are met: 1) the bid price equals the value-in-use or 2) the seller no longer desires to continue to use the property. For special-purpose industrial properties, this would be a very special circumstance such as liquidation, transfer of assets or operations to a different location, etc., and would not reflect the

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<sup>1</sup> Appraisal Institute, *The Dictionary of Real Estate Appraisal*, pg. 342.

utility gained by the seller of continuing to own and use the property. Therefore, under a value-in-use premise, the assessment will more likely resemble the ask price as opposed to the bid price.

There are also several important definitions and economic concepts related to the proposed methodology. The terms used in this analysis are defined as:

*Special-Purpose Property: A limited-market property with unique physical design, special construction materials, or a layout that restricts its utility to the use for which it was built.*<sup>2</sup>

*Use Value: The value a specific property has for a specific use.*<sup>3</sup>

These definitions do not refer to the “user” but rather the “use”. This difference is material in applying obsolescence factors and determining which traditional appraisal adjustments should be used. Value-in-use has already been determined as an appropriate basis for assessing special-purpose properties based on the “property wealth” concept proposed in St. John III and reaffirmed in the latest decision of December of 1998.<sup>4</sup>

Further, this proposed methodology meets the court’s recent ruling that each taxpayer does not have the right to “absolute and precise exactitude as to the uniformity and equality of each individual assessment...nor does it [the Property Taxation Clause of the Constitution of Indiana] mandate the consideration of independent property wealth evidence in individual assessments or tax appeals”<sup>5</sup>. The proposed analysis relies heavily on industry-wide data as it applies to the utility of the specific property.

## Estimating Reproduction Cost New

The primary source for estimating the reproduction cost new will be the commercial and industrial cost tables. Special-purpose properties may have higher cost per square foot estimates than other industrial properties due to several factors. For instance, special-purpose properties will likely require more time to construct, which will add additional inflationary costs, interest costs, and holding period costs. Also, special-purpose properties may require unusual or made-to-order materials that are more expensive than normal construction materials. To the extent that special-purpose properties require more investment during construction before realizing a return to the owner, there is more risk involved as well. All of these factors can be taken into account through the estimate of soft costs in calculating the total cost per square foot.

Replacement cost, as opposed to reproduction cost, is the preferred method of cost estimation. However, estimating the replacement cost may not be possible for unique facilities, for situations where the plant engineer is unavailable, or where there is inadequate documentation for the assessor to use in determining an optimal facility. In these cases, reproduction cost estimating is the most reliable method.

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<sup>2</sup> Appraisal Institute, *The Dictionary of Real Estate Appraisal*, pg. 342.

<sup>3</sup> Appraisal Institute, *The Dictionary of Real Estate Appraisal*, pg. 383.

<sup>4</sup> State Board of Tax Commissioners v. Town of St. John, 702 N.E. 2d 1034 (Ind. 1998), aff’g in part and rev’g in part Town of St. John III.

<sup>5</sup> State Board of Tax Commissioners v. Town of St. John, , 702 N.E. 2d 1034 (Ind. 1998), aff’g in part and rev’g in part Town of St. John III.

There shall be a presumption that the reproduction or replacement cost determined by the prescribed schedules is the actual reproduction or replacement cost of the subject structure for purposes of determining true tax value. However, either the assessing officials or a taxpayer shall be permitted to consider and use other relevant and reliable information to rebut such presumption and establish the actual reproduction or replacement cost, if the information was readily available to the assessor and taxpayer at the time the assessed value was set.

### **Adjustments to Reproduction Cost**

Any portion of the facility not in use, or not in the process of being adapted for use, as of the assessment date requires adjustment under the value-in-use estimate. The assessor should subtract the cost of such improvements from the reproduction cost prior to adjusting for physical, functional, and external obsolescence. The physical, functional, and external obsolescence adjustments should reflect that such costs have already been subtracted out.

### **Estimating Physical Depreciation**

The assessor should be concerned about estimating items of physical depreciation that jeopardize the foreseeable (5 years or less) usefulness of the facility (based on the portion remaining after subtracting the cost of unused areas). These should be itemized and the cost to repair or replace the item of physical depreciation should be estimated. Many companies maintain budgeted maintenance or capital improvement schedules that will serve as additional supporting documentation for the determination of physical depreciation and its cost.

### **Estimating Functional Obsolescence**

Newly constructed facilities or specialized uses where the production function (or type of equipment) has not substantially changed since the original construction should not exhibit functional obsolescence. This assumes that the facility was originally designed to be efficient and that functional inefficiencies would not have been created purposefully. Substantial changes in technology, accepted production methods, and product specifications may result in property experiencing obsolescence even given its current use. If the entire use of the facility has changed over time, the assessor may find forms of functional obsolescence. In this case, the assessor should also reevaluate whether or not the real property is a special-purpose property to be evaluated under this methodology since it may have demonstrated a broader set of willing buyers and sellers during the sale process. Finally, functional obsolescence usually does not occur gradually over time but rather is tied to specific events (e.g. a change in use, a change in production process, etc.) that can be objectively determined and will not occur simply because of age.

One difficulty that will arise in this approach is for facilities that contain production equipment requiring unusual physical layouts. For example, technologies that process items in rolls or “lengths” (e.g. paper and steel) usually have a production process that is in a straight, long line and may not allow for more efficiently shaped buildings. As long as the facility’s design matches the needs of the production process, an unusually shaped building would not receive functional obsolescence adjustments under a value-in-use approach.

When a physical inspection shows some form of functional obsolescence, one way of estimating obsolescence is calculating the percentage difference (as opposed to absolute difference) between the current utilization rate of the existing facility and the recent industry average utilization rate for similar facilities (the Census Bureau and Federal Reserve publish utilization rate data). If this calculation indicates a negative percentage, the facility exhibits functional obsolescence relative to the rest of the industry. If this calculation provides a positive percentage, no functional obsolescence exists.

In performing the above calculation, the assessor still has to determine if the percentage differences were due to functional obsolescence versus management decisions. One way to account for this is to look at averages of these statistics over longer periods of time (5 years). To the extent that a specific facility has consistently had lower or higher utilization rates over this 5-year period of time, functional obsolescence is likely to be present. To the extent that the difference is a relatively recent phenomenon that is not exhibited over the 5-year period of time, management decisions are likely to be a more significant cause. Poor management decisions will not allow the taxpayer to claim more functional obsolescence.

Another way to estimate management effects versus functional obsolescence is to consider the specific property's design and expectations. Often, data is available from plant engineers and historical internal documents that indicate the original intended utilization rate (i.e. the intended or expected utilization rate, not the maximum possible rate). A comparison of the current utilization to the original intended utilization, after adjusting for changes in the industry's utilization rate as a whole, would indicate if the facility is being underutilized relative to its potential. The calculation would be the percentage change in the facility's intended utilization rate (adjusted for changes that have occurred in the industry as a whole) compared to the facility's recent utilization rate. Again, a negative number indicates functional obsolescence and a positive number indicates no functional obsolescence.

### **Estimating External (Economic) Obsolescence**

Appraisers sometimes use no external obsolescence adjustments at all for special-use properties because the appraisal is for value-in-use as opposed to value-in-exchange. Consequently, factors that would affect the value to other buyers and sellers are often irrelevant to the value that is being evidenced by the owner's on-going use of the facility.

The first step is to gather utilization data for the most specific SIC code that can be determined. The assessor then compares the average utilization rate for this SIC over a sustained period of time (i.e. the longest period that data is available from the Federal Reserve) to the most recent utilization data (i.e. 1998) for the same group. If the difference between the two estimates is within the sampling error for the data, then there is no external obsolescence adjustment. If the difference is more than the sampling error, external obsolescence is calculated by taking the following formula:

$$\frac{1998 \text{ Utilization Rate} - \text{Long-term Utilization Rate}}{\text{Long-term Utilization Rate}} = \text{External Obsolescence}$$

This adjustment can be up or down. An upward adjustment would imply that an industry that has very high demand or relatively tight supply such that the value-in-use of the property has risen and therefore should be taxed at a higher assessed value.

In the unusual instance where a taxpayer can show that a special-purpose property contains a lease or rental income stream, the taxpayer may attempt to challenge the external obsolescence calculation by capitalizing the difference between market and contractual income. Such adjustments should not be allowed for several reasons including:

- the assessment is based on property wealth regardless of whether that wealth accrues to the landlord or the tenant
- the lack of comparable income data
- the absence of reliable capitalization rate indicators, and
- the difficulty of allocating such income discrepancies between physical, functional, and external obsolescence.

Further, the external obsolescence adjustment relying on utilization rates overcomes all of these barriers and so is an adequate form of adjustment by itself.

Other generally accepted methods of calculating obsolescence may be found in standard appraisal text and may be used where properly applicable if the data was readily available to the assessor at the time the assessed value was set.

## Determining the Depreciation Percentage for Yard Structures

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This section provides instructions for calculating depreciation applicable to commercial and industrial yard structures. The following process is followed.

- Step 1 Determine the effective age of the yard structure by correlating the actual age of the yard structure with the structure condition classification in **Table F-2. Actual Age to Effective Age Conversion Table**.
- Step 2 Go to **Table F-3e. Typical Yard Structure Lives** at the end of this appendix. Find the total life expectancy for the subject yard structure in these tables.
- Step 3 Go to **Table F-4. Depreciation – Commercial/Industrial Structures**. In the effective age column, locate the row corresponding to the structure's effective age as determined from Step 1.
- Step 4 Find the intersection of the selected row (effective age) and the selected column (total economic life expectancy). This number is the total depreciation percentage for the structure and represents all physical deterioration, functional and external obsolescence.

**Example:** A ten (10) year old, concrete parking lot, with a structure condition classification of fair has an effective age of twelve (12) years as shown in the **Table F-2 Actual Age to Effective Age Conversion Table**. It has a total economic life expectancy of fifteen (15) years as shown in **Table 4-3e. Typical Yard Structure Lives**. It would have a total depreciation of sixty percent (60.00%) as shown in **Table F-4. Depreciation – Commercial/Industrial Structures**.

**Table F-1. Structure Condition Classifications**

<b>Classification</b>	<b>Indicated Depreciation</b>
Excellent	All items that can normally be repaired or refinished have recently been corrected, such as new roofing, paint, HVAC overhaul or replacement, etc. The structure suffers no functional inadequacies of any kind and all short-lived components are in like-new condition. Excellent location for the type of structure.
Good	No obvious maintenance required with few signs of deterioration but not everything is new. The structure has above standard appearance and utility for structures of its age. Very good location for the type of structure.
Average	No evidence of deferred maintenance; need for a few minor repairs along with some refinishing. All major components still functional for age of the structure. Minor inutilities typical for structures of like age and design. Average location for the type of structure.
Fair	Evidence of deferred maintenance; need for replacement or major overhaul of some physical components. Building has inadequate utility and services for structures of like age and design. Fair location for the type of structure.
Poor	Many repairs needed; the structure suffers from extensive deferred maintenance. It suffers from major inutilities in that it lacks several amenities that the majority of structures of its age and design offer. Undesirable location for the type of structure.
Very Poor	Extensive repairs needed; the structure suffers from extensive deferred maintenance and is near the end of its physical life. It suffers from extensive inutilities in that it lacks most amenities that the majority of structures of its age and design offer. Poor location for the type of structure.

Note: In determining condition classifications identify the classification that best fits the structure being assessed. Not all of the descriptions must be met. The intent is to classify a structure considering all physical, functional, and external factors and weighing them accordingly.

**Table F-2. Actual Age to Effective Age Conversion Table**

Actual Age	Effective Age based upon Condition Classification					
	Excellent	Good	Average	Fair	Poor	Very Poor
0	0	0	0	0	0	0
01-03	1	2	2	2	3	3
04-06	3	4	5	6	7	8
07-09	4	6	8	9	11	12
10-12	6	8	11	12	15	17
13-15	7	11	14	15	18	21
16-18	9	13	17	19	23	26
19-21	10	15	20	22	26	30
22-24	12	17	23	25	30	35
25-27	13	20	26	29	34	39
28-30	15	22	29	32	38	44
31-33	16	24	32	35	42	48
34-36	18	26	35	39	46	53
37-39	19	29	38	42	50	57
40-42	21	31	41	45	54	62
43-45	22	33	44	48	58	66
46-48	24	35	47	52	62	71
49-51	25	38	50	55	65	75
52-54	27	40	53	58	69	80
55-57	28	42	56	62	71	80
58-60	30	44	59	65	73	80
61-63	31	47	62	68	75	80
64-66	33	49	65	72	79	80
67-69	34	51	68	75	80	80
70-72	36	53	71	78	80	80
73-75	37	56	74	80	80	80
76-78	39	58	77	80	80	80
79 and older	40	60	80	80	80	80



Table F-3a. Typical Structure Lives - GCM

Occupancy	Quality Grade*	Framing Type			
		1 Wood Joist	2 Fire Resistant	3 Reinforced Concrete	4 Fireproof Steel
Apartment	B	50	55	60	60
Apartment	C	45	50	55	55
Auto Service	B	40	45	50	50
Auto Service	C	35	40	45	45
Auto Service	D	30	35	40	40
Auto Showroom	B	40	45	50	50
Auto Showroom	C	35	40	45	45
Auto Showroom	D	30	35	40	40
Bank	B	50	55	60	60
Bank	C	45	50	55	55
Bank	D	40	45	50	50
Bowling Alley	B	35	40	45	45
Bowling Alley	C	30	35	40	40
Car Wash Auto	B	25	30	35	35
Car Wash Auto	C	20	25	30	30
Car Wash Auto	D	20	20	25	25
Convenience Market	A	40	45	50	50
Convenience Market	B, C	35	40	45	45
Convenience Market	D	30	35	40	40
Country Club	B	45	50	55	55
Country Club	C	40	45	50	50
Dining/Lounge	A	40	40	45	45
Dining/Lounge	B, C	35	35	40	40
Dining/Lounge	D	30	30	35	35
Funeral Home	A	50	50	55	55
Funeral Home	B, C	45	45	50	50
Funeral Home	D	35	40	45	45
Garage - Parking	B	35	40	45	45
Garage - Parking	C	30	35	40	40
Health Club	B	40	45	50	50
Health Club	C	35	40	45	45
Hotel	B	45	50	60	60
Hotel	C	45	50	55	55
Hotel	D	40	45	50	50
Ice Rink	B	40	45	50	50
Ice Rink	C	35	40	45	45
Ice Rink	D	30	35	40	40
Motel	B	45	50	60	60
Motel	C	45	50	55	55
Motel	D	40	45	50	50

Occupancy	Quality Grade*	Framing Type			
		1 Wood Joist	2 Fire Resistant	3 Reinforced Concrete	4 Fireproof Steel
Nursing Home	A	50	55	60	60
Nursing Home	B, C	45	50	55	55
Nursing Home	D	40	45	50	50
Office - General	B	50	55	60	60
Office - General	C	45	50	55	55
Office - General	D	40	45	50	50
Office - Medical	B	40	45	50	50
Office - Medical	C	35	40	45	45
Retail - Department Store	B	45	50	55	55
Retail - Department Store	C	40	45	50	50
Retail – Discount Store	B	35	40	45	45
Retail – Discount Store	C	30	35	40	40
Retail - General	B	45	50	55	55
Retail - General	C	40	45	50	50
Retail - General	D	40	40	45	45
Shopping Ctr. - NH	C	35	40	45	45
Shopping Ctr. - NH	D	30	35	40	40
Shopping Ctr. - Regional	B	50	55	55	55
Shopping Ctr. - Regional	C	45	50	55	55
Supermarket	A	40	45	50	50
Supermarket	B, C	35	40	40	40
Supermarket	D	30	35	40	40
Theater	A	40	45	50	50
Theater	B, C	35	40	45	45
Theater	D	30	35	40	40
Utility/Storage	B	30	35	40	40
Utility/Storage	C	25	30	35	35
Utility/Storage	D	20	25	30	30

\* means equal to or less than the quality grade shown; means equal to or greater than the quality grade shown

Table F-3b. Typical Structure Lives - GCI

Occupancy	Quality Grade*	Framing Type			
		1 Wood Joist	2 Fire Resistant	3 Reinforced Concrete	4 Fireproof Steel
Garage - Commercial	B	35	40	45	45
Garage - Commercial	C	30	35	40	40
Hangar	AA	40	45	50	50
Hangar	A, B	35	40	45	45
Hangar	C	35	40	45	45
Hangar	D	30	35	40	40
Manufacturing - Heavy	B	50	55	60	60
Manufacturing - Heavy	C	45	50	55	55
Manufacturing - Light	B	40	45	50	50
Manufacturing - Light	C	35	40	50	50
Manufacturing - Light	D	35	40	45	45
Manufacturing - Loft	A	50	55	60	60
Manufacturing - Loft	B, C	40	50	55	55
Manufacturing - Loft	D	35	40	50	50
Manufacturing – Mill	All	40	50	60	60
Office - Industrial	B	35	40	45	45
Office - Industrial	C	30	35	40	40
Office - Industrial	D	25	30	35	35
Power Generating Plant	All	45	50	55	55
Research & Development	B	45	50	55	55
Research & Development	C	40	45	50	50
Research & Development	D	35	40	50	50
Shop - Small	B	30	35	40	40
Shop - Small	C	25	30	35	35
Storage - Heavy Utility	B	50	55	60	60
Storage - Heavy Utility	C	45	50	55	55
Storage - Light Utility	B	30	35	40	40
Storage - Light Utility	C	25	30	35	35
Storage - Light Utility	D	20	25	30	30
Terminal – Truck	All	40	45	50	50
Warehouse – Light	B	40	45	50	50
Warehouse – Light	C	35	40	50	50
Warehouse – Light	D	35	40	45	45
Warehouse – Loft	A	50	55	60	60
Warehouse – Loft	B, C	40	50	55	55
Warehouse – Loft	D	35	40	50	50
Warehouse – Mini	B	40	45	50	50
Warehouse – Mini	C	35	40	45	45
Warehouse – Mini	D	30	35	40	40

\* means equal to or less than the quality grade shown; means equal to or greater than the quality grade shown

**Table F-3c. Typical Structure Lives - GCR**

Occupancy	Quality Grade*	Framing Type
		1 Wood Joist
Apartment	A	55
Apartment	B, C	50
Apartment	D	45
Bank	B	50
Bank	C	45
Bank	D	40
Dining/Lounge	A	40
Dining/Lounge	B, C	35
Dining/Lounge	D	30
Funeral Home	A	50
Funeral Home	B, C	45
Funeral Home	D	35
Motel	B	40
Motel	C	35
Motel	D	30
Nursing Home	B	40
Nursing Home	C	35
Office - General	B	50
Office - General	C	45
Office - General	D	40
Office - Medical	B	40
Office - Medical	C	35

\* means equal to or less than the quality grade shown; means equal to or greater than the quality grade shown

**Table F-3d. Typical Structure Lives - GCK**

Occupancy	Quality Grade*	Framing Type
		Light, Pre-engineered Steel and Pole Frame
All occupancies	B	35
All occupancies	C	30
All occupancies	D	25

\* means equal to or less than the quality grade shown; means equal to or greater than the quality grade shown

**Table F-3e. Typical Structure Lives – Yard Structures**

Yard Structure	Quality Grade	Life Expectancy
Bins – Corrugated Metal	All	15
Bins - Dry Storage	All	30
Bleachers - Permanent	Steel	30
Bleachers - Permanent	Wood	20
Bleachers - Portable	All	25
Bridges – Highway	All	60
Bridges – Pedestrian	All	30
Bridges - Skyway	All	30
Bulkhead Piling	Conc.	35
Bulkhead Piling	Stone	25
Bulkhead Piling	Wood	5
Canopies C/I	B	30
Canopies C/I	C	20
Car Wash Buildings – Do It Yourself	B	30
Car Wash Buildings – Do It Yourself	C	25
Car Wash Buildings – Do It Yourself	D	20
Car Wash Buildings – Drive Thru	B	30
Car Wash Buildings – Drive Thru	C	25
Car Wash Buildings – Drive Thru	D	20
Chimneys – Brick	All	40
Chimneys – Metal	All	25
Courses - Miniature Golf	All	5
Courts - Paddle Tennis	All	20
Courts - Shuffle Board	All	25
Courts – Tennis	Asp	20
Courts – Tennis	Clay	10
Dikes – Earth	All	5
Docks – Commercial; Steel Piles	Steel	30
Docks – Commercial; Wood Piles	Wood	25
Elevators – Grain	Conc.	60
Elevators – Grain	Steel	35
Fence - Chain Link	All	15
Fence – Wood	All	10
Greenhouses – Aluminum	All	25
Greenhouses – Pipe	All	20
Greenhouses – Steel	All	20
Greenhouses - Wood	All	10
Guard Rails	All	10
Horizontal Storage	All	45
Incinerators - Brick	All	20
Incinerators - Steel	All	15
Liners - Landfill	All	25

Yard Structure	Quality Grade	Life Expectancy
Masonry Walls	All	25
Paving – Asphalt	All	10
Paving – Concrete	All	15
Paving – Crushed Stone	All	5
Railroad Siding	All	10
Retaining Walls	All	10
Silos - Trench and Bunker	All	20
Stacks – Concrete and Brick	All	40
Stacks – Steel	All	25
Stadiums - Sports	All	40
Standpipes – welded steel	All	30
Surface Reservoirs – concrete tanks	All	35
Tanks - Bulk Storage	All	25
Tanks - Elevated Steel	All	35
Tanks - Fuel Oil	All	25
Tanks - General	All	20
Tanks - Oil Storage; Bolted Steel Type	All	25
Tanks - Oil Storage; Welded Steel Type	All	25
Tanks - Water Storage; Steel (Reservoirs)	All	30
Tanks - Water Storage; Wood	All	20
Tanks - Welded Steel Pressure	All	20
Theaters - Drive-In	All	30
Towers	All	50
Tracks - Running	All	20
Turf - Artificial	All	5

Table F-4. Depreciation - Commercial and Industrial Structures

Effective Age	Total Economic Life Expectancy											
	60	55	50	45	40	35	30	25	20	15	10	5
0	0	0	0	0	0	0	0	0	0	0	0	0
01-03	1	2	2	2	3	4	4	6	7	8	20	40
04-06	4	4	5	6	7	9	12	15	20	35	40	80
07-09	6	7	8	10	12	15	19	25	33	42	60	80
10-12	9	10	12	14	18	22	28	36	48	60	80	80
13-15	12	13	16	19	24	29	37	48	61	80	80	80
16-18	15	17	20	25	30	37	46	59	73	80	80	80
19-21	18	21	25	30	37	45	56	71	80	80	80	80
22-24	21	24	29	36	44	54	65	77	80	80	80	80
25-27	25	29	35	43	52	62	74	80	80	80	80	80
28-30	29	34	41	49	59	70	78	80	80	80	80	80
31-33	34	40	47	56	67	74	80	80	80	80	80	80
34-36	38	45	53	62	72	78	80	80	80	80	80	80
37-39	43	51	59	69	77	80	80	80	80	80	80	80
40-42	49	57	64	73	79	80	80	80	80	80	80	80
43-45	54	62	69	77	80	80	80	80	80	80	80	80
46-48	59	66	73	79	80	80	80	80	80	80	80	80
49-51	64	71	77	80	80	80	80	80	80	80	80	80
52-54	68	75	79	80	80	80	80	80	80	80	80	80
55-57	71	78	80	80	80	80	80	80	80	80	80	80
58-60	73	79	80	80	80	80	80	80	80	80	80	80
61-63	76	80	80	80	80	80	80	80	80	80	80	80
64-66	78	80	80	80	80	80	80	80	80	80	80	80
67-69	79	80	80	80	80	80	80	80	80	80	80	80
70-72	80	80	80	80	80	80	80	80	80	80	80	80
73-75	80	80	80	80	80	80	80	80	80	80	80	80
76+	80	80	80	80	80	80	80	80	80	80	80	80



## Using the Commercial Swimming Pool Depreciation Table

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There is one (1) commercial swimming pool depreciation table. In order to use this table you must first determine the age of the swimming pool.

The actual age of the swimming pool on the date of the general reassessment is to be used. Should the pool show excessive deferred maintenance for its actual age, an effective age of six (6) years less than the pool's construction year may be used to determine total depreciation.

**Notes:** Swimming pools are only depreciated during the general reassessment year; no further depreciation is to be applied until the next general reassessment.

No obsolescence is to be given on commercial swimming pools.

To determine the total depreciation percentage for a swimming pool, perform the following steps:

Step 1: In the "Age" column, locate the row corresponding to the swimming pool's actual age or effective age.

Step 2: Find the intersection of the selected row (age) and the "Depreciation" column. This number is the total depreciation percentage for the swimming pool.

**Example:** A commercial swimming pool is nine (9) years old. The Commercial Swimming Pool Depreciation Table indicates the total depreciation percentage for the swimming pool is twenty-five percent (25%).

**Note:** Instructions for recording the total depreciation percentage on the property record card, converting this percentage to a multiplier, and using this multiplier to calculate the remainder value of a commercial swimming pool are provided in the section ***Calculating the Remainder Value*** in Chapter 7.

**Table F-5. Commercial Swimming Pool Depreciation**

Price swimming pool from standard schedule and depreciate on the basis of a 20 year life expectancy, as follows:

Age	Depreciation
01-02	5
03-04	10
05-06	15
07-08	20
09	25
10	30
11-12	35
13-14	40
15-16	50
17-18	55
19-20	60
21-22	65
23-25	70
Over 25	75-80

### Using the Golf Course Physical Deterioration Table

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There is one (1) golf course normal depreciation table. In order to use this table you must first determine the condition and actual age of the golf course as explained in this Appendix.

To determine the normal depreciation percentage for a golf course, perform the following steps:

Step 1: In the rating column, locate the row corresponding to the golf course's condition.

Step 2: Find the intersection of the selected row (condition) and the "Depreciation" column. This number is the normal depreciation percentage for the golf course.

**Example:** A golf course is twelve (12) years old and has a condition of Fair. The Golf Course Depreciation Table indicates the percentage for the golf course is twenty percent (20.00%).

**Note:** Instructions for recording the normal depreciation percentage on the property record card, converting this percentage to a multiplier, and using this multiplier to calculate the remainder value of a golf course are provided in the section ***Calculating the Remainder Value*** in Chapter 7.

#### Table F-6. Golf Course Depreciation

Suggested normal depreciation allowances based upon a composite rating of the overall condition, desirability and functional usefulness of the course. Use after three (3) years.

NOTE: The indicated depreciation listed refers to the following items:

- Tees
- Bunkers
- Greens
- Lakes
- Sprinkler systems
- Site preparation
- Landscaping

Rating	Indicated Depreciation	Depreciation Percentage
Excellent	No deferred maintenance exists. All items that can normally be repaired or refurbished have recently been corrected. The course has superior appearance for courses of its age and design. The course suffers no functional inadequacies of any kind and short-lived components are in like-new condition.	0
Good	No obvious maintenance required with few signs of deterioration but not everything is new. The course has above standard appearance and utility for courses of its age and design.	10
Average	No evidence of deferred maintenance; need for a few minor repairs along with some refurbishing. All major components still functional for age of the course. Minor inutilities typical for courses of like age and design.	15
Fair	Evidence of deferred maintenance; need for replacement or major overhaul of some items. Course has inadequate utility and services for courses of like age and design.	20
Poor	Many repairs needed; the course suffers from extensive deferred maintenance. It suffers from major inutilities in that it lacks several amenities that the majority of courses of its age and design offer.	25
Very Poor	Extensive repairs needed; the course suffers from extensive deferred maintenance. It suffers from extensive inutilities in that it lacks most amenities that the majority of courses of its age and design offer.	50

Note: In determining condition ratings identify the rating that best fits the course being assessed. Not all of the descriptions must be met. The intent is to classify a course considering all physical and functional factors and weighing them accordingly.

Add an additional allowance for extraneous devaluing factors contributing to economic obsolescence as may be required

EXTERNAL OBSOLESCENCE (1 - 3 years)

	EX	G	AV	F	P	VP
0 to 1 year old	30	35	35	35	40	60
1 to 2 year old	20	25	25	25	25	40
2 to 3 year old	10	10	10	10	15	20

Note: External obsolescence is applied to the remaining value  
After normal depreciation is applied.

### Using the Riverboat Depreciation Table

There is one (1) riverboat depreciation table. In order to use this table you must first determine the actual age of the riverboat.

To determine the total depreciation percentage for a riverboat, perform the following steps:

Step 1: In the "Age" column, locate the row corresponding to the riverboat's actual age.

Step 2: Find the intersection of the selected row (age) and the "Depreciation" column. This number is the total depreciation percentage for the riverboat.

**Example:** A riverboat is four (4) years old. The Riverboat Depreciation Table indicates the total depreciation percentage for the riverboat is fifteen percent (15%).

**Note:** Instructions for recording the total depreciation percentage on the property record card, converting this percentage to a multiplier, and using this multiplier to calculate the remainder value of a riverboat are provided in the section ***Calculating the Remainder Value*** in Chapter 7.

**Table F-7. Riverboat Depreciation**

Actual Age	Depreciation
01	5
02	10
03-04	15
05-06	20
07-08	25
09-10	30
11-12	35
13-14	40
15-16	45
17-20	50
21-26	55
27-30	60
Over 30	65

### Calculating Total Depreciation Percentage for Special Use Commercial Properties

Special use commercial properties are special purpose buildings (fast food restaurants and service stations) that are not readily adaptable to other uses.

These types of structures go out of style both functionally and economically at a faster rate than they physically deteriorate due to changes in consumer preferences and demand. The businesses they house are highly competitive and rely heavily on site location and physical appearance. In order to keep up with the competition, owners renovate the interiors of the structures more frequently than they do on most general commercial structures.

Competition, oversaturation, changes in consumer habits, and changes in traffic patterns are a few of the factors that have an influence on the success of the operation. The obsolescence caused by these factors influences the life span of the buildings. Periodic renovation of these type structures cures most forms of obsolescence. Therefore actual age must be converted to effective age following the guidelines earlier in this appendix used for determining effective age.

A depreciation table that reflects the relatively short life of this type structure is provided in this Appendix. The table reflects normal physical depreciation and obsolescence.

To determine the total depreciation for special use commercial properties, perform the following steps:

- Step 1 Assign a structure condition classification to the structure relative to structures of similar age. Structure condition classifications are summarized in **Table F-1. Structure Condition Classifications** earlier in this appendix.
- Step 2 Determine the effective age of the structure by correlating the actual age (weighted age) with the structure condition classification in **Table F-2. Actual Age to Effective Age Conversion Table** located earlier in this appendix.
- Step 3 In the "Effective Age" column of the Special Use Commercial Table, locate the row corresponding to the effective age of the building.
- Step 4 Find the intersection of the selected row (effective age) and the "Depreciation" column. This number is the total depreciation percentage for the building.

**Note:** Instructions for recording the total depreciation percentage on the property record card, converting this percentage to a multiplier, and using this multiplier to calculate the remainder value of special use commercial structure are provided in the section **Calculating the Remainder Value** section in Chapter 8.

**Table F-8. Special Use Commercial Property Depreciation**

Effective Age in years	Depreciation
01	5
02	10
03	15
04	20
05	25
06	30
07-08	35
09-10	40
11-12	45
13-14	50
15-16	55
17-19	60
20-21	65
22-24	70
25-30	75
Over	80

## GRAIN ELEVATOR DEPRECIATION CONSIDERATIONS

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Grain elevators are special purpose structures and, with very few exceptions are rarely convertible into other uses. Therefore, the assessor must carefully estimate all forms of depreciation correctly. Table F-4e allows the assessor to determine the physical deterioration and normal obsolescence suffered by the grain elevator but does not account for abnormal obsolescence caused by such factors as excess storage capacity, lack of transportation facilities (major highways, railroads, or waterways), nor other types of inutilities caused by changes in the agricultural economy.

Besides the normal depreciation from Table F-4e, the assessor must also determine the amount of abnormal obsolescence caused by factors such as these. The determination of the amount of abnormal obsolescence requires a comparative analysis of current operating data and the total licensed capacity. For example, a grain elevator has a total licensed capacity of 300,000 bushels. Over the last five years of operation, the elevator has stored an average of 240,000 bushels. Therefore it is suffering from abnormal functional obsolescence because, in the current market, it has 60,000 bushels of excess capacity.

The assessor should value the grain elevator by first calculating the replacement cost new of the structure. Taking the average number of bushels stored for the most recent five years and multiplying by the unit costs given in this manual accomplishes this. Replacement cost is preferred as opposed to reproduction cost because replacement cost estimates the cost of a physical structure with similar utility. This estimate of cost should be closely aligned with value-in-use. As discussed under Concepts of Cost in the *Introduction* to this manual, "Replacement cost eliminates the cost of obsolete materials, design, and building techniques. In so doing, most forms of functional obsolescence have been "cured" and do not have to be accounted for in the depreciation estimate." The assessor should then follow the steps outlined in this appendix for determining the normal depreciation and apply this depreciation percentage to the replacement cost new estimate.

The amount of abnormal obsolescence should be reviewed annually and adjusted if necessary.



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